

Annual Report
FIRST NATIONAL STORES INC.
year ending

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March 30th 1940

FIRST NATIONAL STORES INC.

Officers

ARTHUR O'KEEFFE, *President*

CHARLES F. ADAMS, *Treasurer*

JAMES C. DUANE	<i>Vice-President</i>
BERNARD F. MCGOLDRICK	<i>Vice-President</i>
MORRIS JOSELOFF	<i>Vice-President</i>
JOHN L. MACNEIL	<i>Vice-President</i>
RALPH F. BURKARD	<i>Assistant Treasurer</i>
JOHN E. ELWELL	<i>Clerk</i>



Executive Committee

CHARLES F. ADAMS
RALPH F. BURKARD
MORRIS JOSELOFF
BERNARD F. MCGOLDRICK
ARTHUR O'KEEFFE



Directors

CHARLES F. ADAMS
CHARLES H. BURGER
RALPH F. BURKARD
JAMES C. DUANE
BYRON M. FLEMMING
ROBERT F. IRWIN
MORRIS JOSELOFF

SAMUEL JOSELOFF
JOHN L. MACNEIL
BERNARD F. MCGOLDRICK
JAMES J. O'HARE
MICHAEL J. O'HARE
ARTHUR O'KEEFFE
NATHANIEL E. WHITTEMORE

Somerville, Massachusetts, June 6, 1940.

TO THE STOCKHOLDERS OF
FIRST NATIONAL STORES INC.:

The Annual Report of your Company for the fiscal year ending March 30, 1940 is presented herewith.

The figures given in this report are comparable with those of prior years as there has been no change in the Company's established method of bookkeeping. The Balance Sheet and Statement of Earnings and Surplus Account have been prepared by independent accountants, Messrs. Price, Waterhouse & Co., and their statement of comments thereon is included in this report.

The results of the operations for the year show an increase in our dollar sales of 5.59%; (Food retail prices, as published by the Commission on the Necessaries of Life, of the State of Massachusetts, were approximately 5% lower than for the previous fiscal year, indicating a greater tonnage increase than dollar sales increase.) Although sales increased, earnings were slightly lower due to a lower profit margin on meats, and higher expenses especially those in connection with the changing over of many of our stores from service to self-service units; working capital was increased \$514,341. Your company is in good financial condition and has adequate working capital.

The following is a condensed summary of operations for the fiscal year ending March 30, 1940, compared with operations for the fiscal year ending April 1, 1939. There is also shown the financial position of this Company at March 30, 1940 compared with April 1, 1939.

	<i>For the Fiscal Year Ending</i>	
	<i>March 30, 1940</i>	<i>April 1, 1939</i>
Retail store sales	\$131,041,157	\$124,222,955
Net profits after taxes, depreciation and all charges and available for dividends	\$2,739,074	\$2,774,366
Earnings per share of common stock after preferred dividends paid during the year (on common shares outstanding at end of year)	\$3.34	\$3.38
	<i>As of</i>	
	<i>March 30, 1940</i>	<i>April 1, 1939</i>
Net working capital (current assets less current liabilities)	\$15,391,322	\$14,876,981
Fixed or property assets (less depreciation)	\$9,072,835	\$9,024,152
Net worth	\$24,874,883	\$24,216,168
Earned surplus	\$18,031,935	\$17,342,501

On the following page graphic charts show the results of our operations for the past fourteen years.

DEPRECIATION CHARGES AND MAINTENANCE CHARGES

	<i>Fiscal Years</i>		
	<i>1940</i>	<i>1939</i>	<i>1938</i>
Depreciation charges	\$953,731	\$956,014	\$1,005,648
Maintenance repairs and renovation charges	\$1,329,888	\$1,057,944	\$921,245

The above amounts were charged to earnings in their respective years to cover the depreciation, maintenance repairs and renovation (including the cost of conversion of service stores to self-service stores) of all of our depreciable assets, including buildings owned, store and plant fixtures, improvements, machinery, equipment, automobiles and trucks.

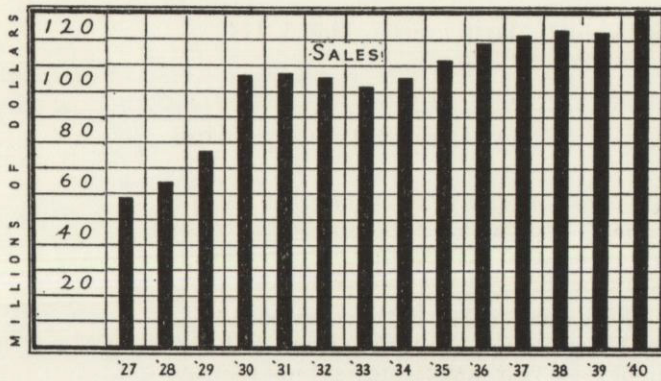
DIVIDENDS PAID

Four quarterly dividends of 62½ cents a share totalling \$2.50 were paid for the fiscal year on the common stock outstanding.

Four regular quarterly dividends of 20 cents a share totalling \$.80 were paid for the fiscal year on the small remaining outstanding balance of preferred shares.

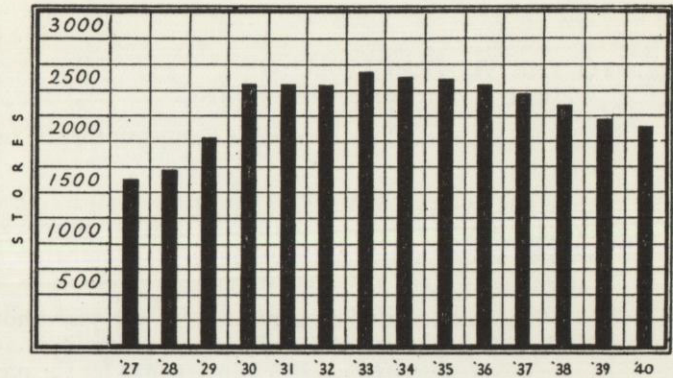
PREFERRED STOCK

During the fiscal year ending March 30, 1940, the Company purchased 3,584 shares of its \$10 par Preferred Stock. These acquired shares are not to be reissued and are to be held in our treasury until cancelled.



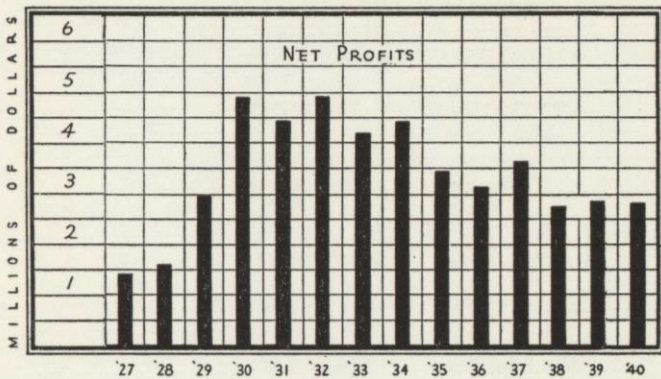
Retail Store Sales—Fiscal Years

1927	\$59,038,304	1932	\$107,634,383	1937	\$120,682,961
1928	64,445,962	1933	100,892,947	1938	124,294,617
1929	75,884,639	1934	105,812,781	1939	124,222,955
1930	107,635,216	1935	111,323,463	1940	131,041,157
1931	108,196,686	1936	119,575,417		



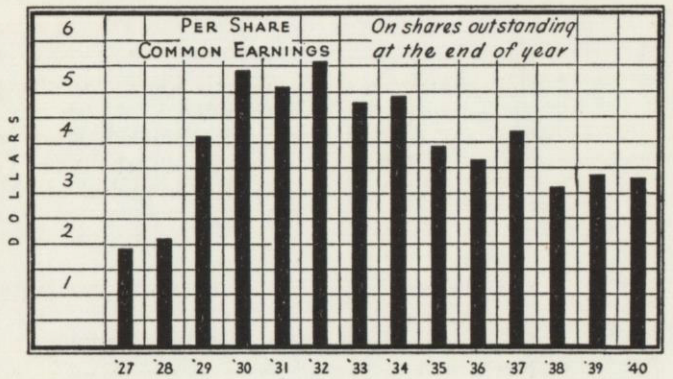
Stores—Fiscal Years

1927	1681	1932	2546	1937	2473
1928	1717	1933	2705	1938	2350
1929	2002	1934	2653	1939	2244
1930	2549	1935	2623	1940	2137
1931	2548	1936	2556		



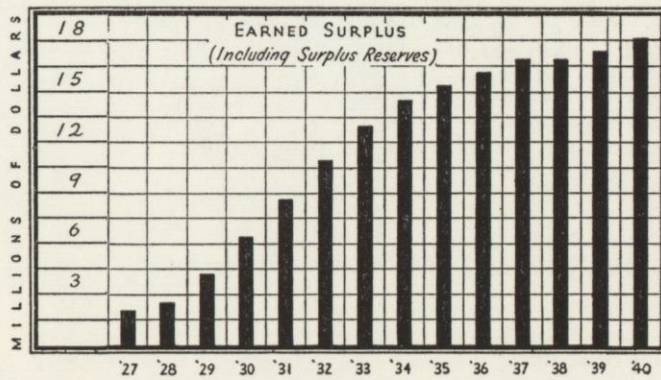
Net Profits—Fiscal Years

1927	\$1,492,193	1932	\$4,825,611	1937	\$3,647,001
1928	1,593,358	1933	4,220,099	1938	2,705,191
1929	2,904,884	1934	4,394,830	1939	2,774,366
1930	4,773,446	1935	3,433,504	1940	2,739,074
1931	4,479,108	1936	3,163,329		



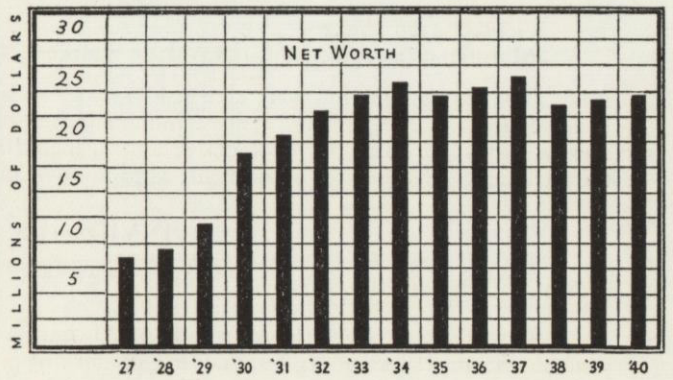
Per Share Common—Fiscal Years

1927	\$1.92	1932	\$5.52	1937	\$4.24
1928	2.09	1933	4.78	1938	3.14
1929	4.07	1934	4.97	1939	3.38
1930	5.39	1935	3.89	1940	3.34
1931	5.03	1936	3.65		



Surplus (Including Surplus Reserves)
Fiscal Years

1927	\$1,996,375	1932	\$10,816,321	1937	\$16,670,118
1928	2,238,303	1933	12,666,672	1938	16,688,036
1929	3,987,782	1934	14,213,494	1939	17,423,131
1930	6,369,726	1935	15,121,448	1940	18,112,565
1931	8,371,910	1936	16,062,827		



Net Worth—Fiscal Years

1927	\$8,723,782	1932	\$22,793,743	1937	\$26,369,140
1928	8,965,710	1933	24,644,094	1938	23,746,089
1929	11,724,410	1934	26,190,916	1939	24,216,168
1930	18,347,148	1935	24,820,470	1940	24,874,883
1931	20,349,333	1936	25,761,849		

GROCERY STORES AND MARKETS

Your company had in operation on	<i>March 30, 1940</i>	<i>April 1, 1939</i>
Grocery Stores	1,680	1,795
Markets or Combination Grocery, Fruit, Vegetable and Meat Stores	457	449
	2,137	2,244
Total Grocery Stores and Markets		

On March 30, 1940 we had in operation 107 less stores than on April 1, 1939. The trend toward fewer and larger stores with self-service grocery departments continues in our company and throughout our industry generally. We had in operation 98 self-service markets and 45 self-service grocery stores on March 30, 1940.

PUBLIC RELATIONS

The policies and the practices of your Company continue to be formulated and administered in such a manner as to result in the maximum good will for the Company as an institution. For many years, long before the term "public relations" came into the business vocabulary, our dealings and our contacts with civic and community organizations, with producers and with other groups have been of such a character as to develop a favorable attitude toward the Company. As one instance, we have had dealings for nineteen years with one producer group numbering over 1200 farmers with not a scratch of a pen to bind the parties, the relationship continuing year after year because of a spirit of mutual fairness and co-operation. Examples of this sort might be multiplied many-fold. Your Company has been a pioneer in co-operative relationships with agriculture which have brought about improvements in distribution benefiting the farmer-producer and the consumer. Today we have sound and harmonious relations with countless groups and individuals resulting in active good will. We conceive of public relations as a function of management and as a part of operations, and not a separate and distinct activity. It is your Management's constant aim to spread more widely a more thorough understanding of our business and its true economic and social significance and to maintain the high standing and reputation of First National Stores by being the sort of Company deserving of such standing and such reputation.

TAXES AND LEGISLATION

For the fiscal year ending March 30, 1940, earnings were charged with direct taxes of \$1,656,274. This amounts to 37% of our profits before taxes for the year, or \$2.02 for each share of our common stock, or \$753 for each store we operate. In our 1930 fiscal year our direct taxes were 14% of our profits before taxes; in 1940—they were 37%—an increase of 164%. A summary of our direct taxes follows:—

<i>Fiscal Year</i>	<i>Total Direct Taxes</i>	<i>% of Income (before Taxes)</i>	<i>Per Share On Common</i>	<i>Per Store Operated</i>
1940	\$1,656,274	37%	\$2.02	\$753
1939	1,666,112	37%	2.03	724
1938	1,463,828	35%	1.79	606
1937	1,435,070	28%	1.75	568
1936	1,200,567	27%	1.47	460
1935	1,111,096	24%	1.36	420
1930	796,693	14%	.97	324

These tremendous annual increases in our direct tax levies, together with the increases in the indirect or "invisible" taxes upon foods not included in the above figures constitute a serious operating problem for our company.

In our last two annual reports our stockholders were informed of the introduction, in the House of Representatives, of the United States, of a so-called Patman Bill. The bill provides (after two years at lower rates) for a graduated annual tax on chain store units up to \$1,000 for each store in excess of 500 and then the tax is multiplied by the number of States in which a company operates. An amendment has been introduced by the proponents, cutting these original rates in half (up to \$500 for each store in excess of 500 and then the tax is multiplied by the number of States in which a company operates). In the case of the bill as originally filed, the annual cost to our company would be approximately \$13,600,000, or over five times our annual earnings, and as amended the cost would be \$6,800,000 or over 2½ times our annual earnings. Public hearings on this bill, known as HR1, were held March 27, to May 16, 1940, by a sub-committee of the Committee on Ways &

Means of the House of Representatives. Officers of your company, and of other chain store companies as well as agricultural leaders, farmers, manufacturers, labor representatives, consumer representatives, real estate owners, economists, editors, teachers and others appeared in opposition to this bill. This hearing afforded the first opportunity to present to a Committee of the Congress the true facts concerning our industry and the opportunity so afforded was welcomed by your company.

At the time this report was prepared, no action had yet been taken upon this measure by the Sub-Committee. Therefore, it seems advisable that whenever an opportunity exists our stockholders should continue to register protests to their Congressmen and Senators in opposition to this discriminatory and uneconomic proposal.

We are glad to report that at the present time there are no so-called discriminatory chain store taxes in the New England States where we operate, although in recent years attempts have been made toward enactment of tax laws of this nature.

STOCKHOLDERS

Our latest dividend list shows 9,268 common stockholders. These shareholders reside in practically every city and town in New England where our stores are located and throughout the rest of the United States and some foreign countries as well. We have an average of over 4 stockholder-owners for each store we operate.

The following table shows the number of our common shareholders at various intervals since 1926.

			<i>As of March</i>			
<i>1940</i>	<i>1939</i>	<i>1938</i>	<i>1935</i>	<i>1932</i>	<i>1929</i>	<i>1926</i>
9,268	9,121	9,228	6,576	4,607	1,975	1,304

TREASURY STOCK—OPTIONS

Of the 9057 shares of common stock acquired by purchase and on hand in our treasury on March 30, 1940, 3,820 shares are set aside under option to certain employees at a price near the market at the time such options were executed.

We take this opportunity to record our thanks and appreciation to our employees who have loyally supported and cooperated with our management during the past year.

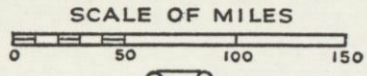
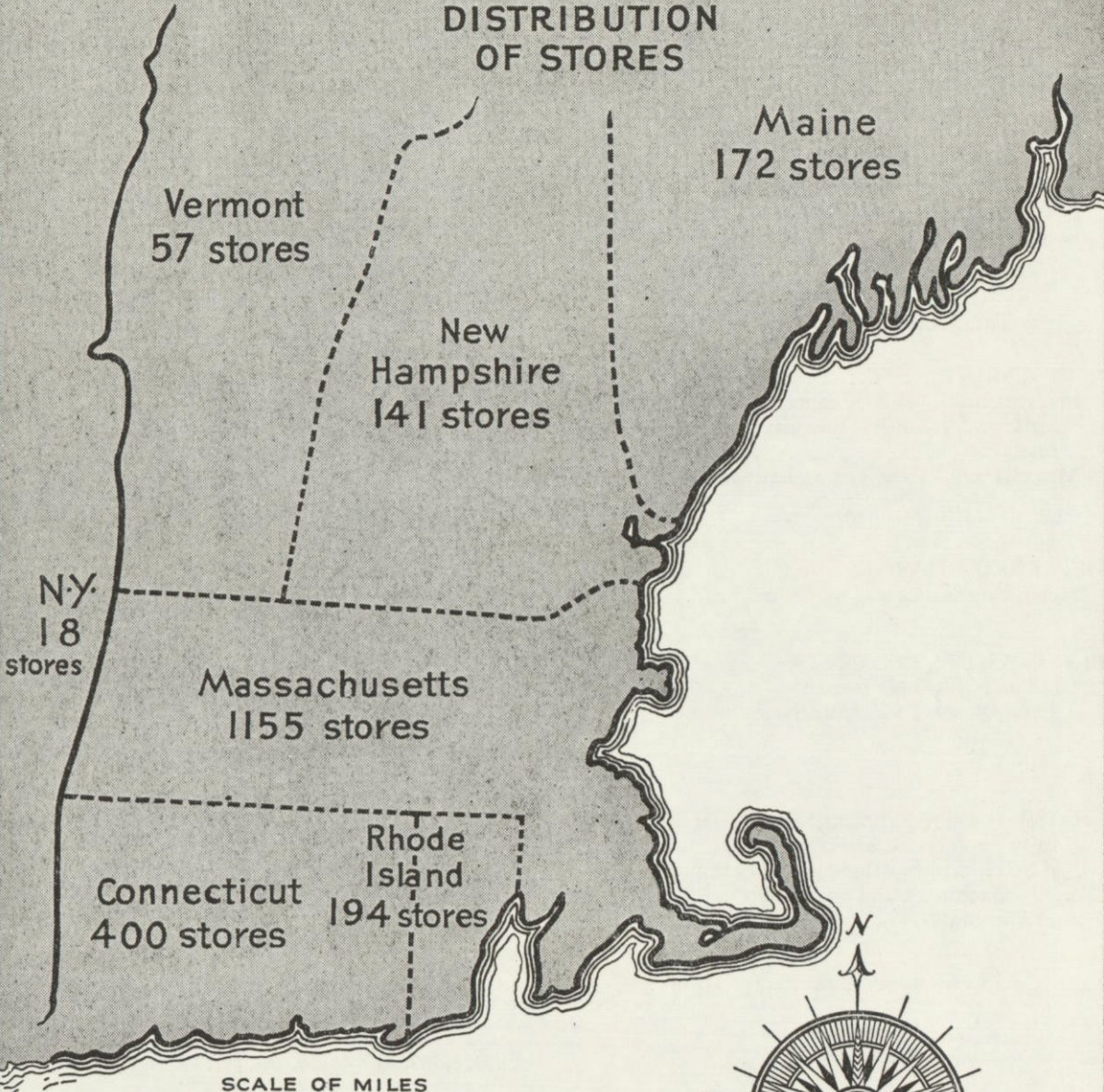
ANNUAL MEETING—PROXIES

A notice of the Annual meeting of stockholders, proxy statement and proxy accompany this report. Stockholders are requested to sign the management's authorized proxy and *mail promptly* in the return envelope provided. Your immediate cooperation in this important matter will save your Company much time and expense and will be greatly appreciated.

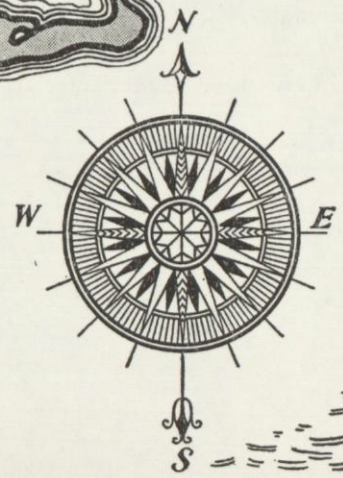
ARTHUR O'KEEFFE,
President.

FIRST NATIONAL STORES INC.

GEOGRAPHICAL DISTRIBUTION OF STORES



Total Number of Stores
as of March 30, 1940
2137



72°

70°

FIRST NATIONAL STORES INC.
Comparative Balance Sheet—March 30, 1940 and April 1, 1939

ASSETS		March 30, 1940	April 1, 1939	Increase *Decrease
CURRENT ASSETS:				
Cash in banks and on hand	\$4,839,393.78	\$4,635,046.55	\$204,347.23	
U.S. Government securities (at market quotations March 30, 1940—approximately \$3,083,000)	3,080,000.00	4,433,511.96	*1,353,511.96	
Accounts receivable, less reserve	414,684.34	334,845.13	79,839.21	
Accounts receivable—officers and employees	4,848.60	2,772.60	2,076.00	
Inventories of merchandise, materials and sup- plies on hand and in transit, at cost or market whichever lower	12,584,842.48	10,458,842.36	2,126,000.12	
Total current assets	\$20,923,769.20	\$19,865,018.60	\$1,058,750.60	
INVESTMENTS, ETC.:				
Investments in and advances to wholly owned milk and creamery subsidiaries—at cost, less reserves	\$217,603.12	\$217,603.12	
Miscellaneous securities and advances	66,981.01	50,398.00	\$16,583.01	
Total investments, etc.	\$284,584.13	\$268,001.12	\$16,583.01	
DEFERRED CHARGES:				
Prepaid insurance and expenses	\$699,159.64	\$622,239.51	\$76,920.13	
FIXED ASSETS (AT COST):				
Land and buildings owned	\$6,865,618.62	\$6,585,467.51	\$280,151.11	
Less—Reserve for depreciation	1,710,559.27	1,583,848.38	126,710.89	
	\$5,155,059.35	\$5,001,619.13	\$153,440.22	
Fixtures and equipment, etc. (after deducting fully depreciated assets)—				
Store fixtures, leased property improvements, machinery and equipment	\$7,861,682.86	\$8,306,102.90	*\$444,420.04	
Automobiles	529,334.59	500,967.78	28,366.81	
	\$8,391,017.45	\$8,807,070.68	*\$416,053.23	
Less—Reserve for depreciation	4,473,241.80	4,784,537.68	*311,295.88	
	\$3,917,775.65	\$4,022,533.00	*\$104,757.35	
Total fixed assets	\$9,072,835.00	\$9,024,152.13	\$48,682.87	
GOODWILL	\$1.00	\$1.00	
	\$30,980,348.97	\$29,779,412.36	\$1,200,936.61	

FIRST NATIONAL STORES INC.

Comparative Balance Sheet—March 30, 1940 and April 1, 1939

LIABILITIES		March 30, 1940	April 1, 1939	Increase *Decrease
CURRENT LIABILITIES:				
Acceptances payable under letters of credit	\$128,883.65	\$64,273.87		\$64,609.78
Accounts payable	3,301,327.81	2,761,493.45		539,834.36
Accrued taxes and other expenses	1,071,634.22	1,083,542.46		*11,908.24
Employees' investment certificates	335,090.00	358,100.00		*23,010.00
Provision for federal income taxes	695,511.11	720,627.91		*25,116.80
Total current liabilities	<u>\$5,532,446.79</u>	<u>\$4,988,037.69</u>		<u>\$544,409.10</u>
RESERVES:				
For contingencies	\$334,600.58	\$334,600.58	
For preferred stock sinking fund	80,630.50	80,630.50	
Miscellaneous	238,418.38	240,605.48		*\$2,187.10
Total reserves	<u>\$653,649.46</u>	<u>\$655,836.56</u>		<u>*\$2,187.10</u>
CAPITAL STOCK AND SURPLUS:				
8% preferred stock—				
Authorized—72,007 shares—par value \$10 each				
Issued—7,007 shares	\$70,070.00	\$70,070.00	
Common stock—				
Authorized—1,000,000 shares without par value				
Issued—827,364 shares	6,977,422.07	6,977,422.07	
EARNED SURPLUS	18,031,935.03	17,342,501.17		\$689,433.86
Together	<u>\$25,079,427.10</u>	<u>\$24,389,993.24</u>		<u>\$689,433.86</u>
Deduct—Capital stocks held in treasury:				
Common stock, at reduced amounts carried on books—9057 shares at March 30, 1940	\$241,142.63	\$254,455.13		*\$13,312.50
8% preferred stock, at cost—3584 shares at March 30, 1940	44,031.75		44,031.75
	<u>\$285,174.38</u>	<u>\$254,455.13</u>		<u>\$30,719.25</u>
Total capital stock and surplus, less treas- ury stock	<u>\$24,794,252.72</u>	<u>\$24,135,538.11</u>		<u>\$658,714.61</u>
	<u>\$30,980,348.97</u>	<u>\$29,779,412.36</u>		<u>\$1,200,936.61</u>

TO THE STOCKHOLDERS OF FIRST NATIONAL STORES INC.:

We have examined the comparative balance sheet of First National Stores Inc. as of March 30, 1940 and April 1, 1939, and the statements of earnings and surplus for the fiscal year ending March 30, 1940, have reviewed the system of internal control and the accounting procedures of the company and, without making a detailed audit of the transactions, have examined or tested accounting records of the company and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination included observations and test counts of the physical inventories during the year and test confirmations of a substantial portion of the accounts receivable by correspondence with the debtors.

In our opinion, the accompanying comparative balance sheet and related statements of earnings and surplus present fairly the position of First National Stores Inc. at March 30, 1940 and April 1, 1939, and the results of its operations for the fiscal year ending March 30, 1940, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE, WATERHOUSE & CO.

Boston, Massachusetts.
May 31, 1940.

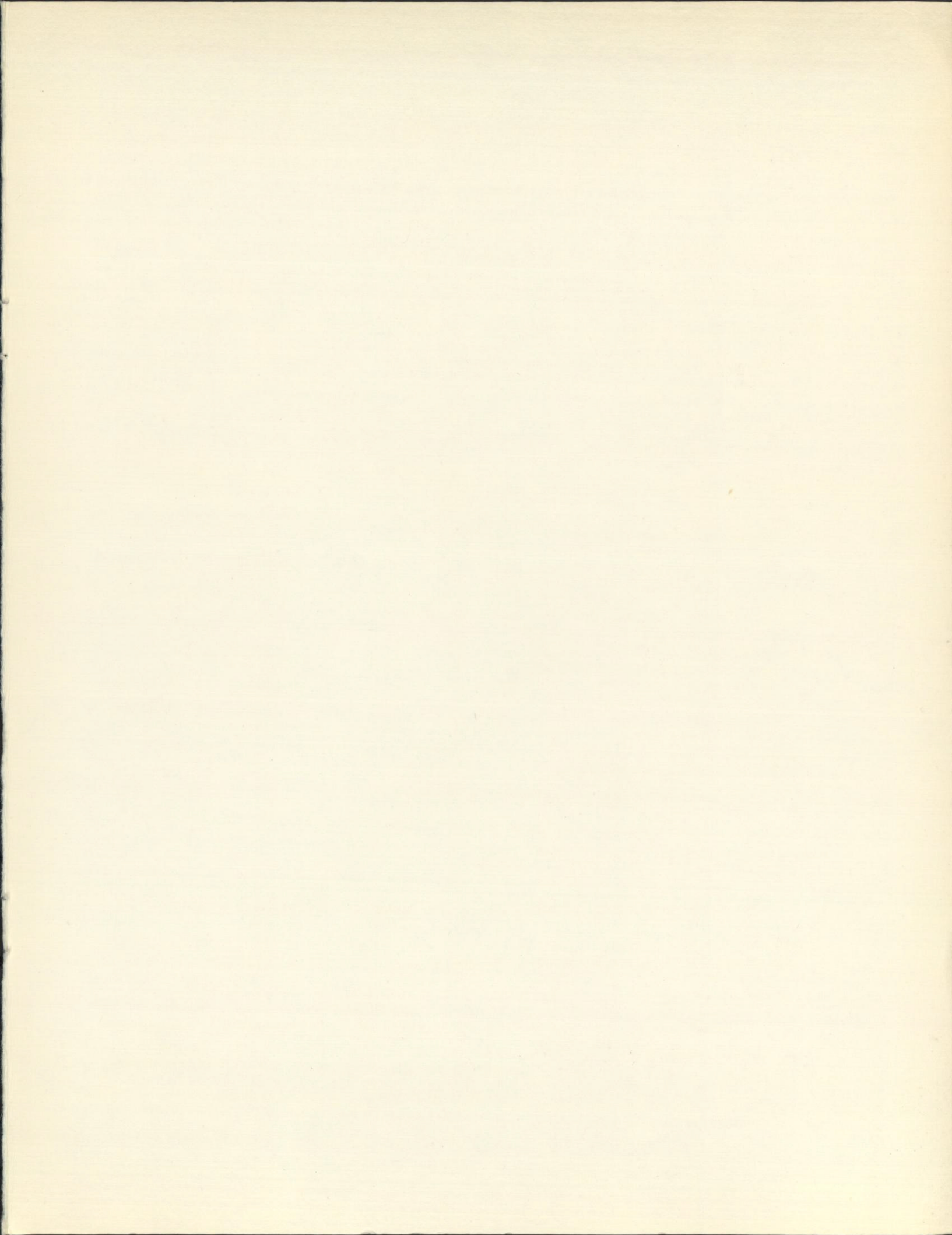
FIRST NATIONAL STORES INC.

STATEMENT OF EARNINGS—FISCAL YEAR ENDING MARCH 30, 1940

Sales		\$131,041,157.86
<i>Less:</i>		
Cost of sales, expenses, etc. (exclusive of depreciation)		126,983,032.60
		\$4,058,125.26
 <i>Deduct:</i>		
Depreciation on fixed assets		953,731.04
		\$3,104,394.22
 <i>Add—Other income:</i>		
Interest and dividends received	\$232,353.83	
Gain on sales of securities	114,036.93	
Miscellaneous	40,765.04	
		387,155.80
		\$3,491,550.02
 <i>Deduct—Other charges:</i>		
Interest paid	\$22,622.38	
Loss on disposition of fixed assets (net)	145,555.78	
Miscellaneous	51,539.82	
		219,717.98
		\$3,271,832.04
 <i>Deduct:</i>		
Provision for federal income taxes		532,757.28
Net profit for the fiscal year ending March 30, 1940		\$2,739,074.76

STATEMENT OF SURPLUS FOR THE FISCAL YEAR ENDING MARCH 30, 1940

Earned surplus at April 1, 1939		\$17,342,501.17
Net profit for the fiscal year ending March 30, 1940	\$2,739,074.76	
<i>Less:</i>		
<i>Dividends paid:</i>		
Preferred stock	\$4,163.40	
Common stock	2,045,477.50	
		2,049,640.90
Earned surplus at March 30, 1940		\$18,031,935.03



1875
1876
1877